

SB/SE Exam Reengineering Project FAQ

Q: Why is the SB/SE Audit Process Undergoing a Redesign?

- It's imperative for SB/SE to make continual improvements while seeking new ways to achieve the IRS's mission of service to each taxpayer and productivity through a quality work environment. To meet these goals, specific changes to the examination work processes must be made, along with approaches that are tailored specifically to the Division's customer base and employee needs
- The current procedures for performing examinations have not changed since the revenue agent and tax audit positions were established in 1952; however, much has changed since then
- SB/SE business results have clearly been declining for several years. Previous modernization efforts have focused mainly on overhauling the structure of the IRS. The Exam Reengineering Project focuses on the **manner** in which we perform our job - the **way** we work. Exam Reengineering however, isn't just about change; it's about making a long lasting, positive impact on the entire organization

Q: What is the purpose of the Exam Reengineering Project?

- The purpose of this Project is to increase customer satisfaction, promote voluntary compliance, and strengthen division effectiveness
- The Project is also applying commercial and government leading practices to the audit process, where appropriate and viable

Q: What does exam "reengineering" mean exactly?

- Exam Reengineering is an approach that begins with defining the scope and objectives of the project and reviewing the current exam processes to develop a "baseline" that shows how business is done today
- This knowledge baseline is used to create a new vision or a "blueprint" for the future
- Finally, strategies are devised to implement solutions to bridge the gap between the baseline (where an organization is today) and the future vision (where they want to be tomorrow)

Q. What are the overall goals of the Project?

- To increase SB/SE effectiveness and timeliness in audit returns, collecting taxes, and resolving taxpayer issues
- To streamline the audit process to reduce the taxpayer's time and expense in dealing with the IRS

Q. How are you working with external stakeholders to redesign the audit process?

- A thorough stakeholder analysis was conducted during Phase I of the Project, where 88 interviews were conducted with IRS employees and with representatives of accounting firms and tax professionals organizations
- The interviews confirmed what SB/SE senior management suspected. The two main problem areas in the audit process are: 1) productivity and its affect on cycle time; and 2) a lack of consistency and its affect on productivity. The redesigned audit process contains specific steps and solutions to address these issues

Q: What other kinds of feedback did stakeholders share during Phase I?

- 98% of internal and 98% of external stakeholders believe that SB/SE is auditing the wrong returns, or auditing the wrong issues on those returns
- As a result of this feedback and our own analysis, we have devoted a substantial amount of efforts towards identifying better returns and improving the classification process
- During the best practices analysis, many examples of world-class practices currently being demonstrated in the IRS were found. Unfortunately, these practices were not widely or consistently used, but the redesign makes substantial use of certain applicable practices and standardizes their use

Q: What are the Project's accomplishments to date?

- The Project is divided into three distinct phases:
 - ∅ **During Phase I – (Summer 2001)**
 - More than 200 organizations were considered in seeking leading practices that could be modeled by the IRS
 - More than 100 one-on-one interviews were performed with internal and external stakeholders to determine how our work practices are perceived
 - Project teams met with more than 200 employees through focus group interviews to assess their perceptions of the strengths and weaknesses of the current audit process and obtain their suggestions for improvement
 - ∅ **During Phase II – (Fall 2001)**
 - The information gathered in Phase I was used to create a blueprint of the redesigned audit process
 - ∅ **During Phase III – (Spring 2002)**

- During mid February through the end of March 2002, a series of focus groups and workshops are planned with internal and external stakeholders around the country to preview the redesigned audit process
- The purpose of these events are to learn what people think about the proposed concepts and to gather their feedback
- The teams will analyze the feedback to learn where recommendations are actionable, and will make any final necessary changes to the design
- At the same time, teams are developing training packages and planning for the implementation of the redesigned audit process

Q: When will the Exam Reengineering Project end?

- On May 1, 2002, the Project officially concludes, and the newly redesigned audit process will begin actual implementation in the field at that time

Q: How can external stakeholders send feedback to the Project teams about the redesigned audit process?

- An electronic mailbox has been established. Comments may be sent to examreengineering@irs.gov

Q: Many people were concerned that classifiers lacked awareness of local issues, and that they wouldn't have sufficient field experience. What is being done on this issue?

- Currently, we have agents serving on rotational details at various locations that are classifying and selecting returns. We want to continue this practice, but enhance it. We will use the newly designed planning model to select better returns; use the information available to the Service to select better issues; and provide our classifiers with a set of standardized guidelines. This ensures consistency in the entire process. The IRS is currently order approximately five times as many returns as are audited. This is very expensive, yet produces no value. We can be more efficient.

Q: Explain how this will work exactly? For example, will examiners from a particular region be assigned to cases from their area?

- We haven't decided yet how many locations we will be doing the classifications at. Tentatively, we're looking at one location in each area, and each area will comprise 2-7 states.

Q: Why will the person classifying the returns, and the person conducting the examination should not be one and the same? Why is this important?

- The organization needs to show external parties that there's a clear separation of duties in this area. If one person does everything, this opens up the possibility of a misuse of their authority. The process lends itself to that possibility. It's very hard to instill objectivity in this process if

we don't separate the different responsibilities and authorities. Internal controls will help us meet this goal.

Q: How will the front-end involvement of the manager in the audit process decrease the manager's workload in the back end?

- Front-end managerial involvement is built into the redesigned audit process. This decreases the need for managerial involvement at the back end of the exam because problems are identified in the early stages of the exam. In most cases, problems that arise early in the process can be resolved more quickly and easily.

Q: Can you explain how the concept of time forecasts is part of the audit plan?

- It's reasonable for the government to provide a taxpayer who is being audited an estimate for how long the audit will last. We do this on an informal basis now, but our proposal puts estimates on the table and uses it for planning purposes and to engage the taxpayer in resolving the audit areas. Keep in mind that we're relying on the agent's experience and judgment to build the time forecast and that it is not set in stone. We expect it to undergo revisions as appropriate. At the same time, if the time forecast is constantly being revised, that sends a message to the examiner and their manager that something is amiss and needs their attention. Additionally, time forecasts are meant to be a tool that helps examiners identify and resolve problems during the early stages of the audit.

Q: Let's talk about examination scope setting. Can you explain why you think this is beneficial?

- One of our primary goals overall is to select a better return for examination. This puts the examiner in a position to focus more on the actual execution of the exam rather than spending their time deciding if the return should be selected for examination and what areas warrant review. Under the redesign, by the time an examiner receives a case, these steps in the process have already been done. This enables the examiner to consider the industry, the type of business, and the legal references for the areas under examination. If their previous experience is adequate, they can quickly move toward considering the records needed for review and determining the depth of the examination. When examiners see new issues or businesses, they can seek out information or guidance, so they're well equipped to conduct the examination. Again, the manager should be involved from the beginning and serve as a resource and a collaborator throughout the examination.

Q: As Phase II comes to an end and Phase III begins where do we see this going?

- It's clear that our workforce wants to perform quality examinations. They also have passion for their jobs and care very much about what we're doing. I ask people at this point to consider the concepts and goals of the redesign. Right now, it's still a work in progress. During February and March 2002, we will solicit input and feedback from external and

internal stakeholders about the specifics of the design. We will aim to reach people at every level by conducting focus groups and giving presentations that encourage dialogue. In April, we will consider all the feedback we received, and make any changes or modifications to the redesigned audit process before the Project ends on May 1st.